May 2016

RBC WEALTH MANAGEMENT

Global Insight

Perspectives from the Global Portfolio Advisory Committee

The power of the buyback

How the effective use of buybacks unlocks shareholder value.

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RBC Wealth Management

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All values in U.S. dollars and priced as of market close, April 29, 2016, unless otherwise stated.

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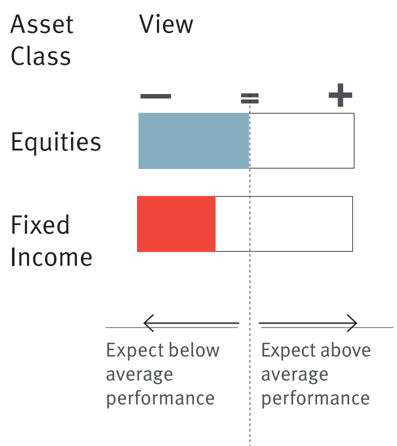

See "Views explanation" below for details

Source - RBC Wealth Management

Equities

- Equity markets defied the naysayers by rallying in April despite earnings misses by bellwether multinational firms. Even though Q1 corporate earnings have been uninspiring thus far and economic growth is tepid in most regions, we remain constructive on the global equity market's prospects for the next 12 months. Ongoing stabilization in commodity prices should provide a tailwind for key industries and boost earnings growth overall. We expect economic momentum to pick up in the U.S. and anticipate that relatively stable, albeit slow, growth will persist in Europe and China.

- We continue to recommend investors maintain a full commitment to equities. We would focus on high-quality stocks with strong cash flows, sturdy balance sheets, persistent dividend growth, predictable earnings, and shareholder-focused management teams.

Fixed Income

- Recent central bank meetings reinforce our view that ultralow interest rate policies could persist for quite some time given lingering global growth risks and relatively low or negative inflation rates. At this stage, the Federal Reserve is likely on hold until December, while the Bank of Japan and European Central Bank (ECB) could ease again during the summer. Furthermore, the U.K.'s "Brexit" vote in June could influence central bank policies and heighten market volatility.

- Credit markets continued to rally in April as commodities rose and global economic data firmed. We remain buyers of North American corporate bonds on pullbacks, although investors should be more selective now that credit spreads are tighter and valuations are less appealing. While European corporates seem fairly valued, the ECB's corporate bond-buying program should support this market longer term.

Views explanation

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ Positive implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= In-line implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

– Negative implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Focus article

The power of the buyback

When companies are sitting on piles of cash, share buybacks—when done right—can create significant value for shareholders. Yet buybacks are often a misunderstood and underappreciated strategy, so we help investors understand how smart buybacks implemented by high-quality companies can work for them.

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All values in this article are in Canadian dollars and priced as of market close, April 29, 2016, unless otherwise stated.

Successful companies often find themselves generating more free cash flow than can be reinvested in growth initiatives at attractive returns. Dividends and share buybacks are two popular means through which companies can return excess cash to shareholders. While the strong outperformance of consistent dividend growers over time is fairly well understood, we find the benefits of consistent buybacks underappreciated.

For many Canadians, the value of share buybacks could take on added importance after the recent introduction of a new high income federal tax bracket.

This article discusses the rationale for share buybacks, shows that buybacks executed consistently and at sensible prices create long-term shareholder value, and explores the unique subset of Canadian companies that have an established track record of consistent share buybacks.

Creating shareholder value

Highly profitable businesses typically generate significant excess capital over time. Management can choose to invest in growth opportunities, hold cash, pay down debt, or return capital to shareholders through dividends and/or buybacks. Ideally, these decisions should be taken after carefully comparing the expected return on each opportunity relative to the company's cost of capital.

Above-average profitability tends to be driven by some form of competitive advantage, yet many companies find themselves unable to leverage that advantage beyond specific markets or geographies. This highlights the difficulty of deploying increasing amounts of capital at attractive returns. Over time, companies that choose to return some capital to shareholders tend to outperform those that pursue growth at any cost. The historical outperformance of consistent dividend growers speaks to this trend.

Companies that increase their dividend each year generally develop a culture of "capital scarcity," where less attractive growth projects are shelved and only the most profitable opportunities are pursued. This type of culture is often associated with frugality, which is another key attribute of many successful companies.

Because dividends are often viewed as long-term commitments, share buybacks offer management an additional, and more flexible, means of returning excess capital to shareholders. While the value of a growing dividend is obvious to most investors, we find that the benefits of consistent buybacks are often underappreciated. Buybacks do not increase the total earnings of a company, but reducing the number of shares outstanding can materially enhance shareholder value over time.

Companies that repurchase shares have fared well over the long term

% annualized performance as of March 31, 2016

	YTD	1-year	3-year	5-year	7-year	10-year
S&P/TSX Composite Buyback Index	5.17	-6.53	8.80	7.40	15.03	7.46
S&P/TSX Composite	4.54	-6.55	5.02	2.10	9.59	4.04

Source - Bloomberg

The table above shows how the S&P/TSX Composite Buyback Index—made up of 50 Canadian companies that have returned the highest value to shareholders via repurchases in the past 12 months—has outpaced the S&P/TSX Composite over long time horizons.

But we emphasize that not all share buybacks are created equal.

Buybacks executed consistently, at sensible prices, are most likely to create value for shareholders over time. To further improve the odds of success, we recommend that investors focus on strong businesses and management teams with established track records of disciplined capital allocation. We caution against companies that have a track record of purchasing their shares excessively in good times, which leaves little flexibility to do so in downturns.

Steering away from a rising dividend tax burden

The table below depicts the combined top marginal tax rate applied to different types of investment income for select provinces. A notable gap between the taxability of dividends and capital gains has opened up for high earners over the past few years. The relative tax efficiency of capital gains becomes pronounced when investments are held for long periods of time since taxes are paid only when an investment is sold.

Combined top marginal tax rate applied to different types of investment income for select provinces

	2009		2015		2016	
	Capital Gains	Dividends	Capital Gains	Dividends	Capital Gains	Dividends
Ontario	23.2%	23.0%	24.8%	33.8%	26.8%	39.3%
Quebec	24.1%	29.7%	25.0%	35.2%	26.7%	39.8%
BC	21.9%	19.9%	22.9%	28.7%	23.9%	31.3%
Alberta	19.5%	14.5%	20.1%	21.0%	24.0%	31.7%
Manitoba	23.2%	23.8%	23.2%	32.3%	25.2%	37.8%

Source - RBC Wealth Management

A complete list of tax rates by province is available on request. It is important to note that many Canadians face very different tax situations and we recommend seeking personalized tax advice before making any investments or changes to portfolios.

A short list of Canadian buyback champions

The table provides a list of Canadian companies that have consistently returned capital to shareholders through share buybacks. Our analysis is based on the actual reduction in share count, as opposed to the number of shares repurchased, to get a true measure of the capital returned by a company. We have also focused on companies with resilient business models, solid balance sheets, and favourable outlooks. Most of the companies listed have also managed to regularly increase their dividends over time.

Canadian companies that have consistently repurchased shares

Reduction in share count over specified period as of March 31, 2016

	1-year	3-year	5-year
Metro Inc. (MRU)	-4.7%	-17.1%	-23.1%
Jean Coutu Group PJC Inc. (PJC.A)	-1.2%	-14.7%	-20.9%
Magna International Inc. (MG)	-2.0%	-13.7%	-17.1%
Canadian National Railway Co. (CNR)	-2.7%	-8.1%	-14.3%
WestJet Airlines Ltd. (WJA)	-3.6%	-6.9%	-13.9%
Agrium Inc. (AGU)	-4.2%	-7.4%	-12.7%
Onex Corp. (OCX)	-2.7%	-7.5%	-10.5%
Canadian Tire Corporation Ltd. (CTC.A)	-4.4%	-8.7%	-9.1%
Thomson Reuters Corp. (TRI)	-4.0%	-7.5%	-8.3%
Telus Corp. (T)	-2.4%	-8.8%	-7.8%

Source - RBC Wealth Management, Bloomberg

Focus
article

Cybersecurity: brave new world

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The internet age has transformed the way we think, communicate, and do business. But the liberating power of the internet has a dark underbelly—more and more cyberattacks on individuals, companies, and governments. This has produced rapid growth within the cybersecurity industry and we think long-term investment opportunities will continue to present themselves for many years to come.

The rise of cybercriminals has been an underappreciated downside of the Internet's growth. The number and severity of cybercrime incidents show no signs of abating after years of unrelenting growth. Cybersecurity has evolved significantly in response to the increasing pace and complexity of threats. While many people still think of cybersecurity as anti-virus software and/or firewalls, the range of services offered is actually far more sophisticated and runs the gamut from "threat intelligence" and "web access management" to "anomaly detection" and "encryption." We believe the cybersecurity industry will continue to experience strong growth as organizations invest to protect themselves against escalating threats.

An everyday battle

Cyberthreats facing businesses, both large and small, are as serious as they are continuous. The threats are not any more pronounced for one sector of the economy versus another given well-documented attacks against banks, retailers, and health insurance providers. Attacks are not limited to the private sector: there have been a number of attacks against government servers. Two major breaches of U.S. government servers in 2015 exposed sensitive personnel and security-clearance information of approximately 22.1 million people, including families of federal workers.

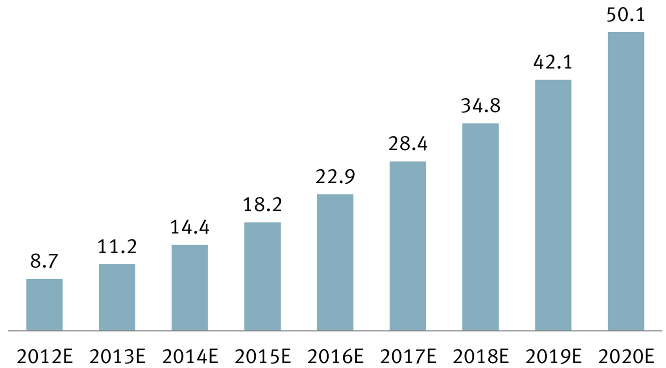
While North America and Europe still represent the largest markets for cybersecurity service providers, Asia is emerging as a rapidly growing source of new demand. In emerging economies, such as China and India, greater incidence of cyberespionage by foreign countries is underscoring the need for more robust defense of their respective cyberspaces.

Forces propelling market growth

The cybersecurity industry has recorded significant growth in recent years. RBC Capital Markets estimates that spending on cybersecurity-related initiatives will increase to nearly $97B in 2018 from about $66B in 2013. Several factors are propelling this:

- **Increasing access points & the cloud:** The proliferation of PC and non-PC devices for work purposes means a sharp increase in the number of potential

Soaring number of internet-connected devices
in billions



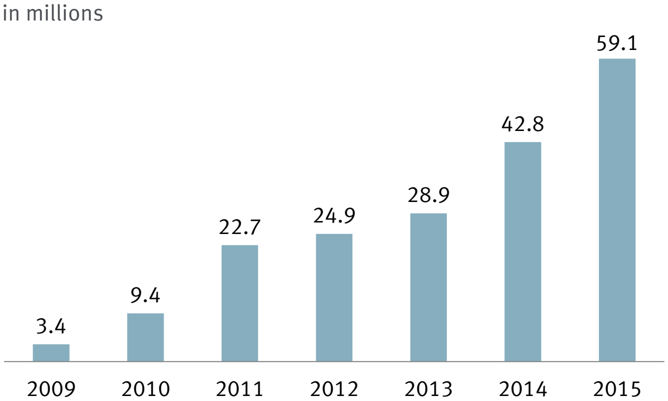
Source - RBC Capital Markets, Cisco

Rapid growth in internet-connected "things" will drive increased spending on cybersecurity.

"entry points" for security breaches, while cloud-based computing effectively extends corporations' sensitive data outside the traditional network boundaries.

- **The Internet of Things:** Cisco estimates there will be more than 50 billion internet-enabled "things" by 2020, up from approximately 14 billion in 2014 (see chart above). Even though these devices are expected to bring remarkable benefits—for example, smart cars that can read and respond to text messages—many of these gadgets may be ill-equipped to deal with the threats in an interconnected world. Most would be hard-pressed to overlook the potential life-and-death threats from such breaches on, say, their cars or insulin pumps.
- **Financial & reputational risk:** Cyber incidents can cost companies huge amounts of time and resources, as well as inflict deep and lasting harm to a firm's reputation and shareholder value. The number of detected cyber incidents soared to about 43 million in 2014, up approximately 50% from 2013 (see chart below). For some context of the potential impact on shareholders, the estimated financial loss per cyber incident surged to $2.7M, up around 35% from 2013 (see chart on following page). How an enterprise chooses to address cybersecurity, from its level of investment to the pursuit of a holistic approach, has become a top management issue.

Total number of detected incidents
in millions

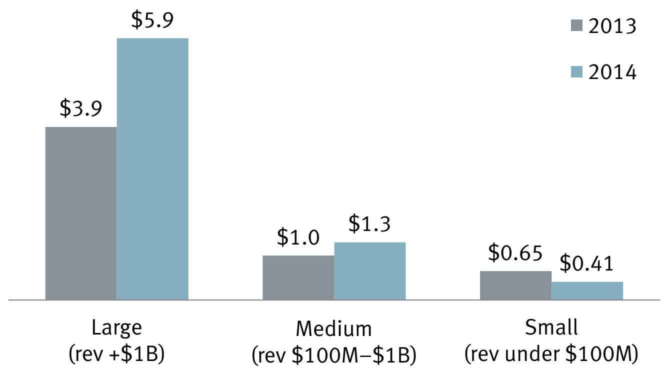


Source - RBC Capital Markets, Price Waterhouse Cooper

Escalating frequency of security breaches underscores prevalence of cyber vulnerabilities.

- **National security:** Cyberspace is increasingly viewed as a new domain for warfare. High-profile breaches of U.S. government servers underscore the challenge of defending the digital space when the threats come from both external and internal sources.

Average financial losses due to security incident by company size
in millions



Source - RBC Capital Markets, Price Waterhouse Cooper

Shareholders shouldn't underestimate the potential financial risks of cyberattacks.

- **Professional hackers:** Hackers have become more sophisticated and organized. For example, "ransomware" and remote access hacking, whereby a hacker hijacks and encrypts a computer or an entire network, holding it "hostage" until a ransom is paid, has become a growing occurrence.

Defend with a "layered approach"

The cybersecurity industry is not characterized by a series of one-stop shops that offer an end-to-end solution as part of a holistic service offering. There is no "silver bullet" that can defend against all cyberthreats. Instead, the industry is highly fragmented, made up of small, focused companies that are experiencing above-average growth.

The fragmented nature of the cybersecurity industry presents its own opportunities and risks for investors.

Most businesses and organizations have adopted a layered approach to defend against threats, which involves the use of multiple security providers and services. This approach represents a real world application of the "Swiss Cheese" model used in risk management, in which a system of defense is analogous to having a series of Swiss cheese slices stacked beside one another. For a threat to be successful, it must pass through a hole in each slice from one end of the stack to the other. A specific threat may pass through the hole of one slice but is likely to face resistance at the next layer.

The layers that constitute a typical line of defense include identity access management, next-generation firewalls, intrusion prevention and detection, email security, encryption, consulting, analytics, and other services. Most companies tend to specialize in a few of these areas rather than offer an all-encompassing solution.

The fragmented nature of the cybersecurity industry presents its own opportunities and risks for investors. While there is plenty of scope for consolidation in the industry, rapidly evolving threats mean that companies must continuously innovate to remain competitive. The swift pace of change in this industry means that most opportunities are probably most suitable for growth-oriented investors that can stomach above-average levels of volatility. We expect demand for cybersecurity services to grow even faster in the coming years and regard this space as a rare example of fast-paced, secular growth in the market.

Focus article

Gold rush

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The price of gold has rebounded 17% over the past five months as investors have sought a safe haven amid financial market turbulence. This jump comes as a welcome relief following a relentless four-year decline that saw the bullion price sink from above $1,900/oz to around $1,000/oz. On balance, the key drivers of bullion prices are mildly positive, suggesting to us that these recent gains will hold. But, in our view, the scope for a further sustained advance is limited.

Macroeconomic environment and the implications of negative interest rates

High sovereign debt loads, subpar developed world growth, and diminished emerging market growth have led a number of central banks, including the European Central Bank and the Bank of Japan, to adopt extreme monetary policies including negative interest rates. While the intention is to spur economic growth and, in some cases, combat currency appreciation, there are certain unwanted side effects.

From an investor standpoint, a negative interest rate environment creates challenging implications for the traditional 60/40 stock/bond portfolio, including:

- Low bond yields have diminished the traditional buffer that regular fixed income interest payments offer against portfolio volatility;
- Government bonds with low and, in some cases, negative returns if held to maturity offer more limited upside potential and clear downside risk;
- The potential for unstable asset price inflation as investors can effectively borrow for free to invest in assets such as equities or real estate;
- Currency wars may leave some investors with significantly depreciated domestic holdings and hence global purchasing power as their local currencies decline; and
- Increased risk to global economic stability as central banks run thin on stimulus alternatives.

With the role of bonds in capital preservation perhaps diminished, U.S. equities no longer compellingly cheap, and currencies experiencing sharp volatility, we believe gold offers an effective risk management tool to counteract financial market volatility and the potential for valuation compression in equities.

Supply & demand trends

Moderating mine supply and generally robust demand trends leave gold market conditions constructive from a fundamental perspective.

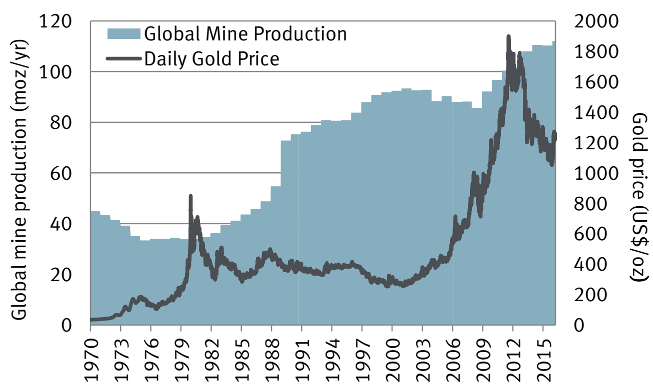
Supply

Gold production expanded rapidly through the 1980s, following a period of high prices, aided by the proliferation of low-cost heap leach technology. However, from 1993 through 2008, mine supply advanced just 6% as prices were negatively impacted by substantial central bank selling of gold reserves. A new upleg in the gold price got underway in the middle of the last decade, surging above $1,000/oz in the wake of the global financial crisis.

At first, mine production was slow to respond, but eventually significant new capacity arrived supported by the economics of high prices. The arrival of this additional supply was a key change to market dynamics that helped to send prices decisively lower starting in 2013.

More recently, declining prices led to only a marginal advance in mine supply for 2015 with Q4 2015 delivering a year-over-year decline. Going forward, a leveling off or further reduction of supply is reasonable to expect until a more sustained period of gold price strength reshapes corporate priorities.

Global gold mine production



Mine supply growth leveling off after several years of poor prices.

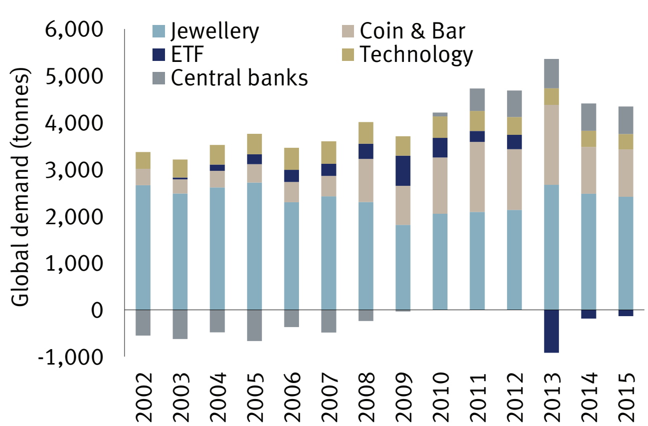
Source - Gold Field Mineral Services Ltd, Bloomberg, RBC Wealth Management

Demand

Demand trends remain solid with central banks active, investors buying physical gold (bars, coins, and jewellery), and funds flowing back into gold exchange-traded funds (ETFs).

After nearly two decades of central banks selling gold reserves, this group became net buyers in 2010 as officials sought to diversify away from U.S. dollar holdings. Central bank purchases have represented an important source of demand over the past six years and remained robust in 2015, the second-highest year of demand in over two decades.

Global Gold Demand Trends



Demand from major sources including central banks, coin and bar, and jewellery remains robust.

Source - World Gold Council, RBC Wealth Management

For bar, coin, and jewellery, emerging market buyers are a key source of demand with China and India representing about 50% of global demand for physical gold over the past two years. On a worldwide basis, bar and coin demand remained solid in 2015, albeit down from the highs experienced a few years ago. Global jewellery demand was similarly strong, off only modestly from the 2013 peak.

Finally, investor fund flows into ETFs have rebounded sharply in early 2016, following a multiyear decline.

U.S. dollar

The Federal Reserve raised its overnight funds rate this past December for the first time in nearly a decade. Expectations of a new hiking cycle led to a 25% appreciation in the U.S. Dollar Index in late 2014 and early 2015. In recent months, the market has come to believe Fed rate hikes will come much more slowly than first feared. With gold typically inversely correlated to the U.S. dollar, such an environment is more supportive of gold prices.

Outlook for bullion price and gold equities

RBC Capital Markets forecasts the price of gold at $1,250/oz in 2016 and $1,300/oz in 2017 and long term. A bullish story for gold could gain sustained traction should any of the following catalysts take hold in a meaningful way:

- Stalling upward momentum and/or volatility in equity markets;
- Rising concerns of a U.S. recession given choppy economic data well into the business cycle, now over six years running;
- A downturn in China's credit cycle given substantial growth in bank assets and rising nonperforming loans; or
- Political instability from the possibility of Britain leaving the EU or from Middle East tensions.

We believe a sustained multiyear rally would require a change in the prevailing view of a slowly recovering global economy.

Gold equities have soared on rising gold prices and substantial operating leverage. Looking at the top four North American gold miners, production costs, including corporate overhead and select capital expenditures, are estimated by RBC Capital Markets at about $1,150/oz for 2016. With gold prices recently climbing from a bottom near $1,050/oz to spot prices closer to $1,250/oz of late, producers have gone from unprofitable to profitable again on a cash basis. With prices near breakeven levels, we would expect company cash flows and stock prices to remain highly sensitive to bullion prices.

Conclusion

Due to grappling with high sovereign debt loads and fragile economic growth, the adoption of aggressive monetary stimulus has become widespread. Low and negative bond yields, significant appreciation of U.S. equities in recent years, and sharp currency fluctuations all provide solid arguments for gold as portfolio ballast. Strong central bank purchases, robust physical gold (coin, bar, jewellery) demand, and rebounding ETF fund flows offer a constructive supply and demand backdrop. Finally, a slower pace of Fed interest rates hikes and its weakening effect on the U.S. dollar have reversed prior pressure on gold.

While these conditions are more supportive of gold prices, we believe a sustained multiyear rally would require a change in the prevailing view of a slowly recovering global economy. Our outlook for gold remains neutral.

Not as cheap as they were

Global stock markets continued to rally through April. The S&P 500 and Dow Industrials stand out—both flirted with old highs. Most other major indexes finished ahead on the month, but well short of previous high water marks.

The rally in oil and other commodities eased the intense strains that had developed in some parts of the corporate credit market and for many emerging economies. As a result, corporate yields have fallen sharply, allowing P/E multiples to rise.

Valuations are no longer as compellingly cheap as they were at the February lows, but they are still attractive in a world where we expect the U.S. and other developed economies will achieve reasonable, if uninspiring, growth over the next 12 months, underwriting a worthwhile advance in corporate earnings.

As usual, there is a formidable "worry list" that is likely to periodically disturb the equanimity of investors in the coming months and quarters. Europe is a focus for a number of these. The June "Brexit" referendum in the U.K., the simmering pressures of the migrant catastrophe, and the need for further major Greek aid all threaten to topple the region back into existential crisis.

Concerns about China's economy have abated but not gone away. And, while welcome, the rally in oil prices is unlikely to forestall what we think promises to be a painful debt restructuring in the Energy sector over the next couple of years.

Acknowledging all of these challenges and others still leaves us with the important U.S. economy unlikely to head into recession anytime soon, the intensity of the downturn of fortunes in the Energy sector abating, evidence of a small but welcome uptick for China's economy, and a somewhat improved outlook for many, if not all, emerging economies. While the various possible European outcomes remain confounding, we expect the EU to more or less muddle through.

For our part, we expect major global equity markets will deliver reasonable all-in returns over the coming 12 months with plenty of opportunity for volatility along the way.

Equity views

Region	Current
Global	=
United States	=
Canada	=
Continental Europe	=
United Kingdom	–
Asia (ex-Japan)	=
Japan	+

Source - RBC Wealth Management

Regional highlights

United States

- With the S&P 500 pushing higher again in April amid weak earnings reports, it seems the market is looking ahead to modest fundamental improvements in coming quarters. We believe lackluster Q1 earnings of -5.7% y/y (-0.3% ex-Energy) will represent the trough quarter of the recovery cycle. The S&P 500 should deliver mid-single-digit EPS growth in the next 12 months as the economy picks up and Energy sector earnings shift from negative to positive.
- Since the correction low on February 11, the S&P 500 price-to-earnings ratio has climbed to 17.6x from 15.2x forward earnings estimates. Even

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at this above-average level, equities are more attractively valued than Treasuries. The S&P 500 current earnings yield stands at 5.2%, well above the 10-year Treasury yield of 1.8%.

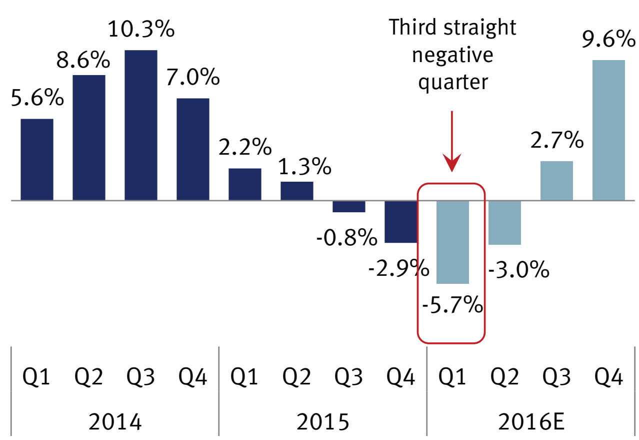
- Investors should prepare to buy U.S. stocks on pullbacks should the summer months deliver their typical below-average returns. The sectors we continue to recommend include Information Technology, Consumer Discretionary, and Consumer Staples. Bank stocks are also attractive given their low valuations and potential for margin improvement once the Federal Reserve takes further steps to normalize interest rates. Additionally we favor industrial conglomerates due to our assessment that the energy industry, one of its key end markets, is stabilizing.

Canada

- The loonie has outperformed since January due to better-than-expected economic data, higher crude oil prices, and unchanged monetary policy. Ongoing strength in the Canadian dollar could reverse the tailwind enjoyed for the past three years by many Canadian-listed companies with significant U.S. operations.
- We believe the rally in oil prices will have a limited impact on the outlook for bank credit losses given the damage already inflicted on balance sheets in the Energy sector and the negative employment trends in Western Canada. We continue to expect a gradual rise in credit losses over the next two years. That said, we see the equity market access recently afforded to the Energy sector as an incremental positive as firms are able to issue equity and repair overleveraged balance sheets.
- Despite the failure amongst major producers to agree on a pact to freeze production volumes, crude oil prices have held firm near their 2016 highs. We believe investors are best served by favouring high-quality, well-capitalized companies in the Energy sector. We expect energy company cash flows to benefit from considerable cost savings realized during the energy bear market.
- Capital markets volatility, an increasingly dovish tone from the Fed, and the cooling of the U.S. dollar have contributed to strength in bullion and associated gains in the shares of gold producers. In light of high operating leverage in the industry at gold prices in the

S&P 500 Quarterly Earnings Growth (y/y)

Actual (dark blue), consensus estimate (light blue)



Q1 2016 should be the trough quarter for U.S. earnings.

Source - RBC Wealth Management, Thomson Reuters I/B/E/S; estimates as of 4/29/16

$1,200/oz range, we expect producer share prices to remain highly sensitive to bullion prices.

Continental Europe & U.K.

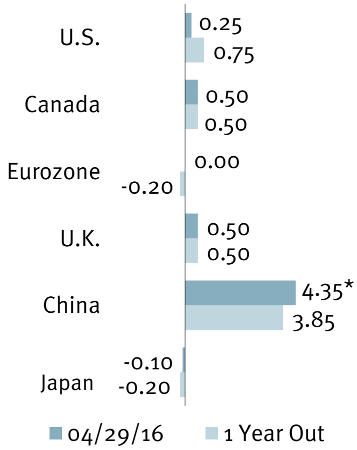
- We remain underweight U.K. equities. Our preferred sectors from a positioning perspective are Consumer Discretionary, Health Care, and Telecom. After four years of underperformance, and given the stabilisation of commodity prices, U.K. equities are becoming more attractive, in our view. Yet, uncertainty over the outcome of the referendum on EU membership keeps us on the sidelines despite interesting valuations.
- A vote to leave the EU could have far-reaching economic and political consequences for the U.K. The country's economic momentum is already decelerating as the uncertainty holds back investment. The GBP is weakening, as the 5.2% current account deficit, the largest in the developed world, takes its toll. We expect domestic cyclical stocks to continue to struggle ahead of the referendum. Conversely, companies generating a large percentage of revenues from the U.S. should fare better.
- Meanwhile, we remain neutral on European equities. The economic recovery remains fragile, and consensus earnings expectations have been severely scaled back. The ECB's efforts at propping up inflation and weakening the euro are inconclusive for now. We maintain our bias towards domestic cyclical stocks.

Asia

- The MSCI AC Asia Pacific Index has continued to rebound from its February low. The index has recouped its losses from the sharp global equity correction in January and February, aided by relatively stable economic data from China and an improvement in the price of oil.
- Chinese economic data improved notably in March. The official manufacturing leading indicator rose above 50 for the first time since July. Housing sales have been particularly strong, causing a pickup in construction activity. Many industrial activity indicators that were flashing red at the end of 2015 are now neutral or positive. Chinese stocks trading in Hong Kong, or H-shares, offer more attractive valuations than those trading in the mainland, in our view.
- Japan's TOPIX Index trades at 1.1x book value and 12.9x forecast earnings. These levels are attractive given fairly resilient earnings expectations. Japanese equities have labored under a stronger yen, which rallied further after the Bank of Japan refrained from adding further stimulus, against expectations. RBC Capital Markets retains a longer-term negative view on the yen, driven by tighter policy in the U.S. The year-end target is USDJPY 122.

The dog days are over

Central bank rate (%)



*1-yr base lending rate for working capital, PBoC
Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, Consensus Economics

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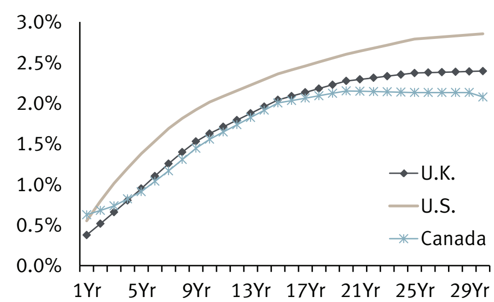
Fixed income markets seem to be taking their cue from weather patterns in the Northern Hemisphere as the dark and frigid winter gives way to optimism and sunnier days in the spring. A rebound in oil prices and firming economic data have resulted in a greater risk appetite, illustrated by the significant compression in credit spreads and generally more sanguine view expressed by central bankers in April. That's not to say storm clouds may not be forming on the horizon, with the "Brexit" referendum, a potentially disruptive event that will likely see a heightened level of volatility as it approaches, scheduled for June.

With the Federal Reserve not scheduled to meet until mid-June, we believe the Federal Open Market Committee (FOMC) would have prepared investors for a potential rate hike at that meeting with specific direction at its April meeting. Instead, the FOMC used the April meeting to acknowledge that global conditions had improved but that more information was needed before a rate hike would occur. We remain selective buyers within U.S. corporates and suggest investors use pullbacks to build positions in lower-rated parts of the market.

In Canada, a string of better economic data and a jump in commodity prices have improved sentiment in the economy and financial markets. We remain constructive on corporate bonds and preferred shares but recommend investors exercise patience.

Sovereign yield curves



Source - Bloomberg

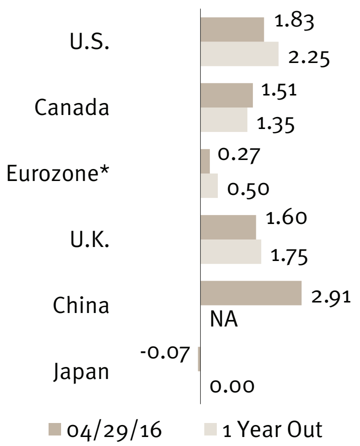
Regional highlights

United States

- The Federal Reserve remains steadfast in its desire to hold interest rates steady until it is comfortable with global economic and financial conditions. The FOMC seems unlikely to hike rates at its next policy meeting in June, although it did note at its most recent meeting in April that some of its concerns had diminished. In our view, the Fed wants to see a run of stronger data, domestically and globally, which we believe places the timing of the next rate hike in December.
- The credit rally continued unabated in April as oil prices rebounded and global economic data firmed. Market volatility will likely remain elevated, and we would use market pullbacks to prudently increase risk exposure in BBB-rated credits, and select BBs. Corporate bonds may also receive an unexpected tailwind through the rest of 2016 from the European Central Bank's plan to add corporate bonds to its asset purchase program, which we believe will indirectly support U.S. credits.
- Within municipal bonds, we recommend investors remain selective, given parts of the market

Global fixed income

10-year rate (%)



*Eurozone utilizes German bunds.
Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee

are quite rich. We recommend focusing on quality rather than chasing yield and see value in adding insured bonds to portfolios.

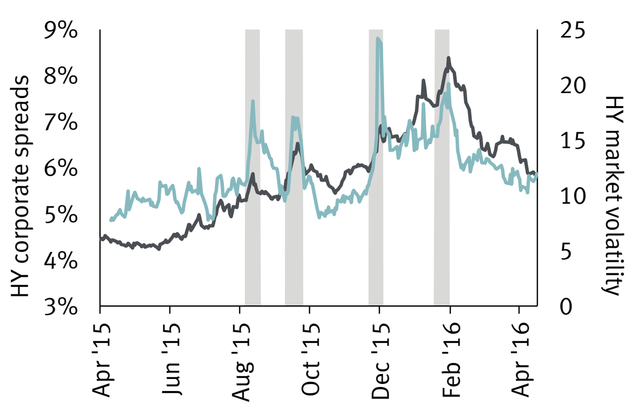
Canada

- Yields on 5- and 10-year Government of Canada bonds reached 2016 highs in April, reflecting improving sentiment and economic data. As we anticipate the themes of low rates and volatility to continue for some time, we would use this recent selloff as an opportunity for investors who are not currently market weight duration to consider adding some duration to their portfolios.
- The market is now pricing in a modest chance of an interest rate hike by the end of 2016, which is a shift from the prior month when there was a small probability of a rate cut by year end.
- Credit spreads tightened and the preferred share market continued its trajectory higher in April. We remain constructive on corporate bonds and preferred shares, but recommend that investors looking to add exposure exercise patience following the recent rally. Investors should consider legging into new positions as we anticipate continued volatility in these markets over the medium term.

Continental Europe & U.K.

- Investors are already anticipating further stimulus measures from the ECB this summer even though fresh stimulus measures were just announced by the central bank in March. We are comfortable adding duration in Europe given inflation expectations remain low.
- We expect the Gilt market to be choppy through May as the debate rages for and against a "Brexit." We are wary of adding duration in the U.K. over the coming months and recommend holding tight and adding selectively when reinvesting.
- European credit has performed well and now appears fairly valued. Spreads have moved tighter over April, driven by risk sentiment and the announcement of a corporate bond purchase program that starts in June. We think this central bank measure will be a longer-term driver for European credit but the market could take a breather. In the U.K., the "Brexit" premium is ever present and we focus our current attention towards global rather than domestic issuers.

Bouts of volatility over past year have created entry points



We think spreads have peaked for the year. Use pockets of market volatility to selectively add corporate positions at attractive spread levels.

Note: Gray shading represents recession periods
Source - RBC Wealth Management, Bloomberg

Goodbye glut?

Commodity forecasts

	2016E	2017E
Oil (WTI $/bbl)	41.00	57.00
Natural Gas ($/mmBtu)	2.18	2.88
Gold ($/oz)	1,250	1,300
Copper ($/lb)	2.00	2.25
Corn ($/bu)	3.82	4.10
Wheat ($/bu)	4.92	5.71

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (corn and wheat)

Oil prices have continued to move higher as market fundamentals have improved on further declines in U.S. production and recent OPEC supply outages while demand growth remains robust. This has occurred despite a failed attempt by the world's largest oil producers to reach an agreement in April to freeze output, due in part to Iran's refusal to attend the meetings in Doha.

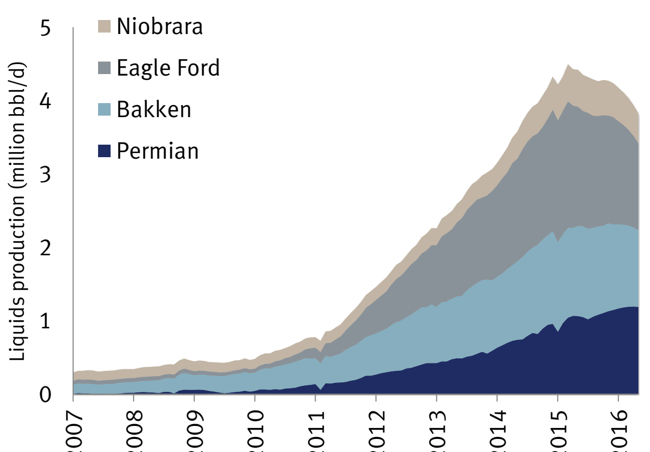
A number of recent production disruptions have tightened supply. Pipeline sabotage in Nigeria, a payments dispute in Iraq, and field maintenance in the United Arab Emirates collectively shut in 600,000 barrels per day (bbl/d), more than offsetting the 400,000 bbl/d increase from Iran since the start of the year. A short-lived strike in Kuwait over worker pay briefly removed 1.9 million bbl/d (2% of global supply) from the market, an amount more than sufficient to offset the global level of supply surplus estimated by RBC Capital Markets at 1.2 million bbl/d in Q2 2016.

Venezuela, a 2.4 million bbl/d producer (2.5% of global supply) is facing an economy set to contract by 8% and inflation set to reach 720%. If the financial strain on the government becomes so severe that it can no longer pay its oil workers, this source of supply could be vulnerable. A strike in 2002–03 saw production cut by some 80%.

Overall, the global oil market is forecast by RBC Capital Markets to shift from over- to under-supplied in the second half of 2016. Potential sources of derailment to this forecast would include: resiliency of U.S. production volumes, a slowdown of the global economy, Iran ramping production closer to 1 million bbl/d versus the consensus view of 400,000–600,000 bbl/d, and the potential for Libya to increase production closer to the pre-civil war 1.6 million bbl/d from 300,000 bbl/d recently.

Should oil prices rebound to $55–$60/bbl, a resurgence of U.S. shale oil drilling and development of drilled-but-uncompleted wells is expected. Rising U.S. rig counts combined with lingering, bloated inventories could perhaps attenuate any rally absent significant supply outages.

U.S. shale oil production



Sharp production decay and limited drilling are starting to negatively affect U.S. shale oil production.

Source - U.S. Energy Information Administration, RBC Wealth Management

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Currencies

Currency forecasts

Currency pair	Current rate	Forecast Mar 2017	Change*
Major currencies			
USD Index	93.08	101.97	10%
CAD/USD	0.80	0.76	-5%
USD/CAD	1.26	1.31	4%
EUR/USD	1.15	1.03	-10%
GBP/USD	1.46	1.51	3%
USD/CHF	0.96	1.10	15%
USD/JPY	106.50	126.00	18%
AUD/USD	0.76	0.66	-13%
NZD/USD	0.70	0.58	-17%
EUR/JPY	121.94	129.78	6%
EUR/GBP	0.78	0.68	-13%
EUR/CHF	1.10	1.13	3%
Emerging currencies			
USD/CNY	6.48	7.00	8%
USD/INR	66.33	71.00	7%
USD/SGD	1.34	1.58	18%
USD/TRY	2.80	3.14	12%
USD/PLN	3.82	3.90	2%
USD/MXN	17.18	15.82	-8%
USD/BRL	3.44	5.15	50%

* Defined as the implied appreciation or depreciation of the first currency in the pair quote.
Examples of how to interpret data found in the Market Scorecard.
Source - RBC Capital Markets, Bloomberg

U.S. dollar

The dollar lost ground against most major currencies in April. Reduced expectations for future interest rate hikes by the Federal Reserve have been the primary catalyst for the weakness. The Fed has expressed a reticence to hike rates in the near term as a result of uneven economic data and volatility in global financial markets. We think the U.S. economy will prove resilient and the Fed will hike rates by at least 25 basis points before the end of the year. This should help to reignite the stuttering dollar, assuming global worries continue to dissipate.

Euro

The euro is expected to weaken over the medium term, according to RBC Capital Markets, as the effects of negative interest rates filter through the banking system and the broader economy. Furthermore, we believe additional stimulus from the European Central Bank is possible given low inflation is expected to linger in the region for an extended period of time, according to RBC Capital Markets.

British pound

Sterling remains a particularly volatile currency as we draw ever closer to the June 23 U.K. “Brexit” referendum. The Bank of England’s Monetary Policy Committee voted 9-0 again to hold interest rates steady, despite earlier reports that some members might vote for rate cuts. Overall, economic data has been strong in the U.K., although the most recent retail sales posting was notable for its weakness. This development suggests the U.K. consumer may have become reticent to spend money ahead of the referendum. We remain neutral on the pound.

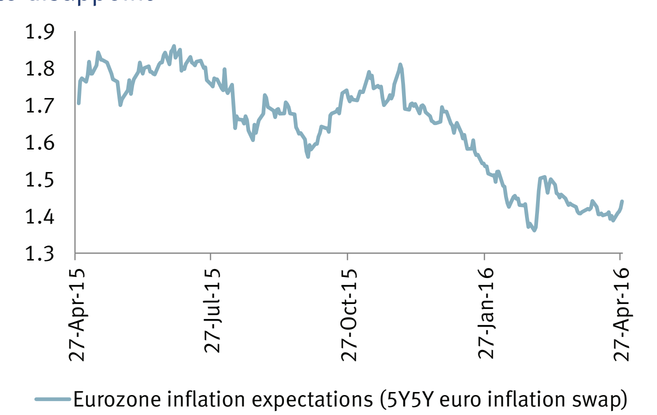
Canadian dollar

The Canadian dollar has continued its impressive rally against the greenback and is up over 13% since the lows set earlier this year. Higher commodity prices, stronger domestic economic data, and reduced expectations for a rate hike in the U.S. have represented the confluence of factors that have propelled the loonie higher. Financial markets now place a less than 10% probability of any further rate cuts this year. We have upgraded our outlook on the Canadian dollar to a positive bias.

Japanese yen

The yen weakened versus the dollar in April as risk appetite increased concurrent with indications from some Bank of Japan officials that more easing initiatives could be forthcoming. We believe Japanese policymakers will get the lower yen they crave, but as a result of U.S. dollar strength as opposed to any measures they may introduce.

Inflation expectations in the euro area continue to disappoint



Despite the bounce in March, inflation worries persist.

Source - RBC Wealth Management, Bloomberg; data through 4/28/16

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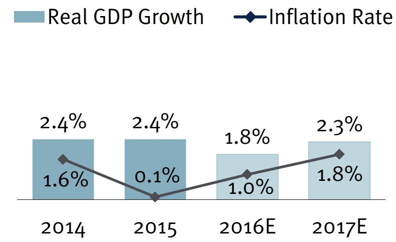
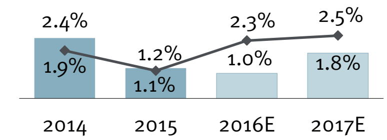
Key forecasts

United States — sustained growth



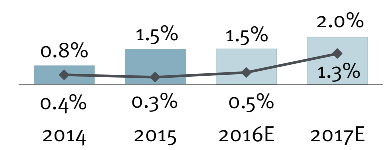
- Q1 GDP growth slow at 0.5%. But inventory drag now over. Manufacturing new orders and production expanding at slower pace. Consumer balance sheets, income growth, employment all strong. Spending slowish, saving high. Housing strong in Q1, but permits weak. Capex, exports softer. Leading indicators, confidence point to sustained, albeit slow, domestic growth.

Canada — in transition



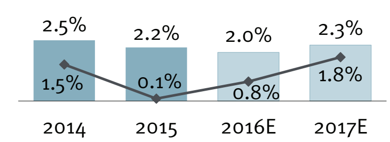
- Q4 was the second quarter of positive growth in 2015. Q1 should extend the positive streak. House construction firm, business capex (mostly energy) and government weak. Consumer attitude restrained by resource sector weakness. Mfg. sales ex-petroleum products growing consistently, led by autos. Ditto for exports including services and tourism all helped by weak loonie. Energy capex plans still falling.

Eurozone — strengthening



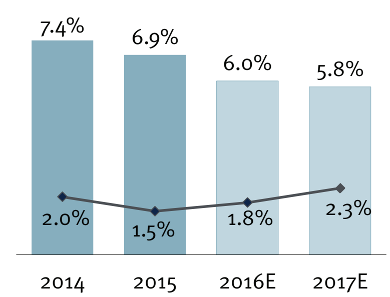
- Q1 growth stronger than expected at 2.0% annualized. Spain solid, France very strong at 3.2%. Bank lending standards remain mostly easy, loans to private sector up year over year.
- PMIs improved in March, and further in April. Q2 growth should equal Q1. Refugee crisis, fractious politics weighing on consumer and business sentiment. Full-year GDP growth to hold steady in 2016, improve in 2017.

United Kingdom — slower



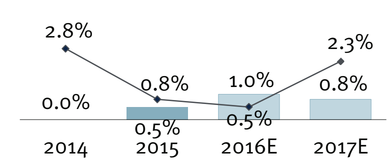
- Q1 GDP weaker than Q4 at just 1.6% annualized, led by dominant services sector. Construction, industrial sectors subtracted from growth. Employment softer, but positive. Household earnings growth now below 2%. PMIs and new orders positive.
- Growth pace sustainable for 2016, but uncertainty around EU membership referendum is weighing on business/investment confidence.

China — slowing



- Q1 slower, year-over-year GDP now at +6.7%, but some pickup evident in latest month. Domestic loan growth distorted lately by pay-down of U.S. dollar debt. Mfg. official PMI back close to expansion territory, services sector PMI doing somewhat better. Employment, wages, retail sales all growing. Exports, industrial production, manufacturing output all up sharply in latest month but New Year distortion could be the reason.
- Gov't reduced bank reserve ratio in Feb. for 6th time in 14 months. House prices higher y/y in major centers.

Japan — conflicted, weaker



- GDP growth slipped back in Q4, but finished up on the year. Leading indicators have weakened, manufacturing PMI worst in three years, but new orders better. Services PMI in expansion zone. Corporate earnings solid, but business confidence weak.
- Wages growing slowly, consumer confident, but household spending weak. Low oil prices putting inflation targets in jeopardy.

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee

Market scorecard

Index (local currency)	Level	1 Month	YTD	12 Month
S&P 500	2,065.30	0.3%	1.0%	-1.0%
Dow Industrials (DJIA)	17,773.64	0.5%	2.0%	-0.4%
NASDAQ	4,775.36	-1.9%	-4.6%	-3.4%
Russell 2000	1,130.85	1.5%	-0.4%	-7.3%
S&P/TSX Comp	13,951.45	3.4%	7.2%	-8.4%
FTSE All-Share	3,421.70	0.8%	-0.7%	-9.0%
STOXX Europe 600	341.48	1.2%	-6.7%	-13.7%
German DAX	10,038.97	0.7%	-6.6%	-12.4%
Hang Seng	21,067.05	1.4%	-3.9%	-25.1%
Shanghai Comp	2,938.32	-2.2%	-17.0%	-33.8%
Nikkei 225	16,666.05	-0.6%	-12.4%	-14.6%
India Sensex	25,606.62	1.0%	-2.0%	-5.2%
Singapore Straits Times	2,838.52	-0.1%	-1.5%	-18.6%
Brazil Ibovespa	53,910.51	7.7%	24.4%	-4.1%
Mexican Bolsa IPC	45,784.77	-0.2%	6.5%	2.7%
Bond Yields	**4/29/16**	**3/30/16**	**4/30/15**	**12 mo chg**
US 2-Yr Tsy	0.782%	0.721%	0.567%	0.21%
US 10-Yr Tsy	1.833%	1.769%	2.032%	-0.20%
Canada 2-Yr	0.692%	0.542%	0.676%	0.02%
Canada 10-Yr	1.513%	1.227%	1.581%	-0.07%
UK 2-Yr	0.528%	0.441%	0.535%	-0.01%
UK 10-Yr	1.596%	1.415%	1.834%	-0.24%
Germany 2-Yr	-0.484%	-0.487%	-0.221%	-0.26%
Germany 10-Yr	0.271%	0.153%	0.366%	-0.10%
Commodities (USD)	**Price**	**1 Month**	**YTD**	**12 Month**
Gold (spot $/oz)	1,292.99	4.9%	21.8%	9.2%
Silver (spot $/oz)	17.84	15.6%	28.7%	10.5%
Copper ($/metric ton)	5,064.00	3.8%	7.6%	-20.4%
Uranium ($/lb)	29.15	6.0%	-15.3%	-23.8%
Oil (WTI spot/bbl)	45.92	19.8%	24.0%	-23.0%
Oil (Brent spot/bbl)	48.13	21.5%	29.1%	-27.9%
Natural Gas ($/mmBtu)	2.18	11.2%	-6.8%	-20.8%
Agriculture Index	305.01	7.7%	7.6%	5.0%
Currencies	**Rate**	**1 Month**	**YTD**	**12 Month**
US Dollar Index	93.08	-1.6%	-5.6%	-1.6%
CAD/USD	0.80	3.6%	10.2%	-3.8%
USD/CAD	1.26	-3.4%	-9.3%	4.0%
EUR/USD	1.15	0.6%	5.4%	2.0%
GBP/USD	1.46	1.8%	-0.8%	-4.8%
AUD/USD	0.76	-0.7%	4.4%	-3.8%
USD/CHF	0.96	-0.2%	-4.2%	2.9%
USD/JPY	106.50	-5.4%	-11.4%	-10.8%
EUR/JPY	121.94	-4.8%	-6.7%	-9.0%
EUR/GBP	0.78	-1.1%	6.3%	7.2%
EUR/CHF	1.10	0.3%	0.9%	4.9%
USD/SGD	1.34	-0.3%	-5.2%	1.5%
USD/CNY	6.48	0.4%	-0.2%	4.4%
USD/BRL	3.44	-4.4%	-13.3%	14.0%

Resource-heavy Canadian TSX leading among developed markets on rebound in oil and materials stocks.

U.K. yields jumped amid “Brexit” risks.

Crude oil’s monthly gains strongest since mid-2009.

U.S. dollar down in four of past five months as Fed pushed back rate hikes.

Equity returns do not include dividends, except for the German DAX. Equity performance and bond yields in local currencies. U.S. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing. Examples of how to interpret currency data: CAD/USD 0.80 means 1 Canadian dollar will buy 0.80 U.S. dollar. CAD/USD -3.8% return means the Canadian dollar has fallen 3.8% vs. the U.S. dollar during the past 12 months. USD/JPY 106.50 means 1 U.S. dollar will buy 106.50 yen. USD/JPY -10.8% return means the U.S. dollar has fallen 10.8% vs. the yen during the past 12 months.

Source - RBC Wealth Management, RBC Capital Markets, Bloomberg; data through 4/29/16.

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

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Distribution of Ratings - RBC Capital Markets, LLC Equity Research
As of March 31, 2016

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
Buy [Top Pick & Outperform]	887	51.78	258	29.09
Hold [Sector Perform]	722	42.15	115	15.93
Sell [Underperform]	104	6.07	8	7.69

Distribution of Ratings
For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP) and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

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An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets, LLC ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Ratings: Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio. **Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months.

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